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PROVISIONS OF THE FOOD ACT AND ACTIVITIES WHICH SHOULD BE MADE PERMANENT

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The law establishing the Food Administration provides specifically for but a small number of activities which have actually been undertaken by the Food Administration. This is true not only because of the general powers conferred by the act itself, but because, as is always the case in times of war, no one can foresee the exigencies which would arise demanding unusual action. Probably no one is more surprised than the sponsors of the act itself with the unexpected lines of activity which have been assumed. It is also probably true that the most constructive and permanent benefits have resulted from these unforeseen activities.

If a general survey and analysis of the Food Administration's activities is made, it will be found that the work may be classified under the two following heads:

1. Those activities concerning themselves with the distribution of food commodities; that is, marketing regulations and conditions.

2. Those activities having to do with the regulation of price.

Market regulations have concerned themselves specifically with such commodities as sugar, wheat, and with the conditions governing the marketing of perishable and non-perishable commodities. In the case of both sugar and wheat there has been a general supervision of the distribution of these commodities through agreements with the existing agencies of distribution.

It is important to understand that in regulating the distribution of these essential products, as well as in practically all other phases of the Food Administration work, there has been no disposition to replace the regular business organizations by a government organization, but on the contrary to utilize the existing machinery of distribution. While the work of the Food Administration has produced profound changes in marketing, these results are by-products of the activities, since it was not the function of the Food Administration to reorganize business conduct.

In the case of sugar and wheat and other cereals one of the chief purposes has been to distribute the product equitably to different sections of the country, and at the same time to secure certain amounts of these products for export. Zones were estab-

lished, and the movement of sugar and cereals have been restricted, thus securing large economies in transportation costs. Transportation waste has long been present in much of our marketing, made possible not only by the unregulated competition of the carriers but also by the competition of markets. Through this control of the movements of these necessities, each section has, so far as transportation conditions permitted, been assured an equitable share in the available supply. Nothing short of such control would have prevented many sections of the country from being without sugar and certain cereals for considerable periods during parts of the winter of 1917 and the spring of 1918. Not only has the available supply been equitably distributed, but the sugar supplies from Hawaii, Cuba, and Porto Rico have been controlled in their movements. The available stocks have at all times been known, and hence a deficient market has, wherever possible, been supplied.

In the case of perishable commodities the method of marketing them has been almost revolutionized. Each distributor of any importance of these commodities has been licensed, and as such has been subject to the rules and regulations promulgated to govern the marketing of perishable produce.

For many years the waste in handling perishable produce has been appalling, and under the most carefully supervised system large wastes in marketing perishable produce are inevitable. Prices on this produce fluctuate very widely and quickly, and for many years any fall in price in the market has led either to refusal on the part of the buyer to accept the goods at any price, or to a demand for a large allowance from the contract price. In either case the perishable produce deteriorated very rapidly, and great loss resulted not only for the consignor but also for the public at large.

The regulations of the Food Administration prohibit, on penalty of revocation of license, a consignee from not accepting produce which is of a grade purchased, and likewise prevent the consignor from shipping produce of a grade not purchased. Through an inspection system quick action was secured in determining the rights in the case, and thus perishable produce was kept moving rapidly to the consumer. What was in law an illegal practice, but seldom prevented, has become an actual accomplishment through these regulations. Consignor, consignee, and the public ought not to permit the old practice to become again prevalent.

In the case of non-perishable food commodities, the chief accomplishments have been in regulating the stock which could be held for the market. Certain other regulations have secured as direct as possible a movement to consumers, and others have fixed margins of profit for the various dealers in handling these commodities. Certain regulations governing resales within the trade have tended to the elimination of unnecessary pyramiding of profits.

The second general class of activities of the Food Administration concerns itself with regulation of price. As has been stated, the Food Act grants no direct power to fix prices, but it does confer the power to prohibit profiteering. It also grants the power to issue and revoke licenses. It is, therefore, in the administration of these foregoing powers and in the extensive plan of agreements with trade groups that the control of prices has been established.

No one except those intimately familiar with the work of the Food Administration can realize how extensive the control of prices has been, and it should be clearly understood that this control has been in most cases gladly entered into by the trade groups. Indeed, they have been in many cases most anxious to subscribe to the plan of fixing margins or even of prices.

This is largely true because of the character of the food-distributing business. It is a highly competitive one and, in many respects, a highly speculative one. If, therefore, a disinterested and superior body proposed an agreement which would stabilize prices, and if individual competitors would agree to the plan, the arrangement has usually been very satisfactory to the trade.

Nor has it meant necessarily that the consumer has been injured. Sugar, for instance, before the Food Administration was established was frequently sold at or below cost. Under the Food Administration the retailer was granted a stable profit, and at the same time the consumer was guaranteed sugar at a fair price, when undoubtedly it would at certain times and in many places have been true that the price would have been much higher.

A stabilized price is a kind of insurance, reducing risk both for the producers and consumers. The fixing of the liberal price—a marginal producer's price—in war times gives a feeling of security and assurance to producers that is distinctly advantageous. They have only to think of the element of cost; that is, how to organize and carry on production so as to bring it as far as possible below this fixed price.

Likewise, from the viewpoint of the consumer there is this kind of assurance during war times, when uncertainty is greatest both for consumers and producers. The fixation of the price discounts speculation by consumers, who are the most inefficient of all risk-takers.

Furthermore, there is the psychological consideration that consumers will tolerate fixed prices and an empty market in war times, whereas they would rebel against unregulated high prices. In short, price-fixing on the basis of marginal cost reduces risk both to producer and consumer in war times, and prevents unintelligent speculation on the part of each class.

Agreements with the trades have been very numerous. They have been made with producers, manufacturers, wholesalers and retailers. In an effort to enforce that provision of the act prohibiting profiteering, it was necessary to establish some standard of what constituted profiteering. Therefore, margins of profit were agreed upon by consulting the different trade groups. A system of margins was fixed for both the wholesaler and retailer on many of the licensed food commodities.

The preceding activities of the Food Administration are the most important and constructive, although they are the ones about which the public at large have known the least, inasmuch as there is little of a spectacular character in their administration and hence they have supplied little material of a news value; and the public at large has secured its chief information of food activities very naturally from the newspapers.

The consumptive regulations with respect to sugar, bread, and public eating-places have created much interest on the part of the trades and the public. These have had a large emotional appeal on the basis of patriotism, hate, and fear. It is true that large results have, because of these emotional appeals, been secured in the conservation of food commodities in the homes; but such activities are suitable only to the conditions of war, and their success is predicated upon appeals which would have little force in times of peace. Let us revert, therefore, to the above classification of the major activities of the Food Administration and discuss what ones, if any, can profitably be made permanent.

In the first place, it should be stated that the Food Administration in conjunction with the Department of Agriculture has done much to stimulate the production of various food commodities. Stimulating production is provided for, in a general way

at least, by the machinery already existing in the Department of Agriculture. To the extent that production has been stimulated by the price regulations of the Food Administration, this motive may well be considered as ending with the legal existence of the Food Administration.

The method of stimulating production through price regulation has been by various agreements entered into between the Administration and different classes of the trade. Through these various agreements with producers or distributors with respect to margins and therefore of prices, there has been accomplished the end set; namely, an increase in production in many cases of food commodities. The price or margin agreed upon has, in most cases, been a liberal one, and the very natural and indicated result of stimulating production has resulted.

Under this arrangement with marginal trader as frequently the basis on which to establish a margin or price, there has undoubtedly resulted large profits to the more efficient; but, since increased production and stabilized price were the results desired, the larger profits to the more efficient could not be prevented. If a war taxation system had been devised, this unfortunate by-product of the plan could have been corrected. This only illustrates one of the many ways in which a war taxation system has not been devised to meet the conditions resulting from the necessary increased government regulations of business.

Whatever degree of success has been secured by these price regulations and the agreements as to margin between business and the government, has been largely due to the unusual conditions of war and the motives which have actuated both parties. Public opinion has been a large factor in enforcing these agreements. This public opinion has been largely determined by the unusual force which influences business conduct both on the part of producers and consumers during a state of war. These motives are largely absent in times of peace, and, therefore, detailed agreements between the government and business groups with respect to prices and margins would find little place during conditions of peace.

One point, however, in connection with the subject of margins and price regulations should be pointed out, which is often not recognized by students of economic phenomena. Under a highly competitive business organization, such as now prevails, there is enormous loss in the distribution of food commodities due to price-

cutting. If, therefore, in this highly competitive distributive food business, agreements can be made which tend to stabilize over short periods of time prices, the trade as such is not on purely business grounds so much opposed as might at first thought be supposed.

In many of the retail food trades there are distributors who know so little about their costs of doing business that they continually cut prices and do business at a loss. They receive scarcely good wages—to say nothing of true profits in conducting the business. They are continually competing with the more efficient because of their ignorance of the business. Therefore, a trade group is often not unwilling to have a stabilized price or margin, because in the end more true net profits may result even to the efficient business man.

Notwithstanding that in the distribution especially of food commodities large profits may be secured through future trading or through unpredictable phenomena associated with the business, yet over a longer period these larger profits are balanced by heavy losses. Therefore, agreements tending toward stabilization of price over short periods are not unwillingly entered into by the trade. If assurance is given that a disinterested party will see to it that all members of the trade observe the price or margin, and if this price or margin is at least a favorable one for the less efficient, stable and permanent profits are guaranteed for a large number.

If, therefore, an effort is made to enumerate those activities of the Food Administration which might be made permanent either as specific regulations or as principles to be held in mind in devising a future system of regulating the food-distributing business, the following program is suggested:

1. There should be little doubt about the desirability of making permanent the changes which have been made in the methods of marketing perishable produce. This work could be carried on by extending the activities of the Bureau of Markets of the Department of Agriculture, together with the coöperation of the Interstate Commerce Commission and the Department of Commerce.

To accomplish this result there would need to be—

a) A great extension of the grading and standardization laws, as well as a revision of some of these laws now in effect, in order that fruits, vegetables, poultry, eggs, cheese and other commodities may be properly graded. This one reform would enormously

reduce the risk associated with dealing in these products, and at the same time facilitate their marketing.

b) The force of inspectors of perishable and semi-perishable produce of the Bureau of Markets should be greatly increased so that at every important center of production during the marketing season the most careful grading and loading of these commodities could be assured. Likewise these should be permanently located in all the important markets of consumption or forwarding. These inspectors would inspect produce and certify as to its grade and condition when it was received or transferred.

c) A penalty should be provided for any consignor who does not grade or load produce as ordered, and for a consignee who rejects such produce, if it corresponds to the grade purchased. Probably all important dealers in such produce should be licensed.

d) The demurrage regulations should be more stringent in order to put a stop to the pernicious practice of using railway equipment as storage-houses.

e) The Market News Service of the Department of Agriculture should be greatly extended in order that producers may know the supplies in or rolling to each large market at any time, thus securing a good distribution of this perishable or semi-perishable produce which must at all times be kept moving rapidly to consumers.

These three reforms—that of extending the inspection service, that of devising more stringent demurrage regulations, and that of extending the Market News Service—would save millions of dollars to producers and consumers of perishable food commodities in the United States.

In the past there have been large economic losses of transportation costs by sending many cars out from the point of production to be diverted in transit. Many cars have been loaded improperly so that they reached the point of destination with a large percentage of the food ruined. But the largest loss has undoubtedly come from the consignee refusing to accept such products when they reached the market, because either the grade was not as ordered or, more frequently, because the price in the receiving market had decreased.

Prices on perishable commodities do and must fluctuate very widely over short periods of time, but the reforms of the Food Administration in handling perishable produce have been welcomed both by consignors and consignees, and undoubtedly the benefit

to the public has been very large. It is beside the point to argue that contracts for the purchase of perishable produce are enforced like all other contracts in the courts. Because of the highly perishable character of this produce, any dispute arising between buyer and seller cannot await the slow procedure of court action. In the past the commodity when refused has remained in the car for a number of days, holding out or using valuable railway equipment; and in the end has been turned over to the railway company and sold for freight with the result that frequently neither the transportation company nor the producer himself has realized but a fraction of the original value of the commodity.

2. Much popular complaint has been heard during the past decade against the large number of middlemen in the food distributing. Doubtless the more important classes of these middlemen render a specialized economic function that is valuable both for consumers and producers. However, certain Food Administration regulations have placed a limit upon the number of resales permitted with a view of preventing the pyramiding of profits, and consequently the enhancing of prices to consumers. It might be possible, through a system of licensee regulations established by law and entrusted to the Federal Trade Commission, to effect some permanent, desirable reforms in controlling unnecessary resales.

3. The food conditions during the war have brought out even more prominently the increasing importance of the cold-storage house. Most states have certain general regulations with respect to cold-storage-house transactions. These regulations ought to be largely extended both by the state and the federal government, the latter necessarily restricting itself to regulations governing products of an interstate character. As in so many other particulars, there is need of greater uniformity in state laws governing the operation of cold-storage houses, but there is little doubt, on the basis of our recent experience, that increased regulations should be made for these important factors in the distribution and cost of food commodities.

4. Another respect in which the Food Administration's activities have redounded to great public benefit has been in connection with the milk industry. Here again there has been no power to regulate prices, but through agreements with producers and distributors in various sections, certain beneficial results have been secured for the public. Milk has become, under modern living

conditions in cities, such an important commodity not only for the general public but also for child welfare that it may well be questioned whether this commodity has not arisen to such importance as a necessity that both state and federal governments should take the whole matter under closer regulations. In this connection it is not only important that pure milk be served to the consuming public, but that such supervision should be made, especially of the distributing agencies, that the public is guaranteed a fair price.

5. Not the least lesson which has been brought home to all those having to do with the production and distribution of food commodities, is the great need in this country of a new Fair Trade Act and greater activity on the part of those who have the administration of the act under their control.

There is disagreement among students of the question as to whether a fixed-price law should be enacted, but the evil against which such a law is directed ought to be recognized, so that under the increased powers of the Federal Trade Commission more adequate principles of equity and fair play could be secured in the distribution business in this country. We have worshipped so long the idol of competition and the gains which we fondly imagine are always inherent in such a system that little attention has been paid to the unnecessary losses inherent in this highly competitive system as it has developed. A marked illustration has been seen in the railway business, but results approximating this are to be found in almost all lines of business. Business pirates are not synonymous with public servants even in the competitive regime of the present.

American business, as indeed business of all modern industrial nations, needs most an analysis of business costs so that some readily accessible information can be secured by the business man, that he is or is not making a success of his business. Ignorance of costs of doing business is the bane of American business. It injects into the competitive system an element of danger both for the business and for the public. It leads to abnormally high profits and periods of no profit. A condition approximating stable prices and profits might well redound to the interests of both consumers and producers.

6. A more careful supervision of the produce exchanges of the country should be provided, and greater publicity given to their operations.

As is frequently the case, the most important and the most promising beneficial results frequently are the least tangible. This is especially true in connection with the activities of the Food Administration, as it has been made manifest through co-operative agreements with various producing and trade groups. From an earlier period when the policy of "Let business alone" was prevalent, to a later period when the dictum seemed to be that "All business is unfair to the public" and therefore needs restrictive regulations and supervision of every character, we have arrived at a period when it has become realized that much can be secured through coöperation between the government and business.

This has been clearly demonstrated in the activities of the Food Administration, and while it is one of those intangible results which do not point to a specific method of action, yet it nevertheless ought to make possible a new relationship between the government and business. Many agreements have been made between the Food Administration and trade groups which, preceding the war, under statutory acts, would have without doubt brought the trade into the courts convicted with the evidence already in hand of being a combination in restraint of trade. The lesson ought to be clearly learned that encouragement and supervision of trade group activities should replace the older system of forbidding trade groups to associate to improve conditions and methods of doing business, and at the same time secure results which might be of great public benefit.

Whether we wish it or not, modern business has become so complex, and directly and indirectly affects the public in so many ways, that the government can no longer follow the policy of "hands off." Without attempting in any respect to set up a governmental machinery which shall take the responsibility of saying to consumers what is or what is not a fair price, there is every reason for the government to revise its attitude towards business groups and permit them to associate and engage in certain activities, their action at all times to be subject to government supervision if in such action the public good is endangered.

If, therefore, we attempt to summarize those activities of the Food Administration which should be permanent, they are not so much specific in detail as they are pointing the way to a new day and a new order of the relations of government to business.